

BEFORE THE
PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-151-C

Application of ALLTEL Communications,)
Inc. for Designation as an Eligible)
Telecommunications Carrier Pursuant to)
Section 214(e)(2) of the Communications)
Act of 1934)
_____)

REPLY TESTIMONY OF H. KEITH OLIVER
ON BEHALF OF THE
SOUTH CAROLINA TELEPHONE COALITION

July 2, 2007

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.**My name is H. Keith Oliver. My business address is 579 Stoney Landing Road,
3 Moncks Corner, South Carolina 29461.

4

5 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 **A.**I am employed by Home Telephone Company, Inc. as the company's Senior
7 Vice-President of Corporate Operations.

8

9 **Q. PLEASE BRIEFLY OUTLINE YOUR EDUCATION, TRAINING, AND**
10 **EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.**

11 **A.**I received a Bachelor of Science degree in Business Administration from the
12 College of Charleston in May 1977. After being licensed as a Certified Public
13 Accountant in May of 1979, I continued work in public accounting until October
14 of 1984 when I was hired in the finance area at Home Telephone Company. In
15 December of 1999, I was named Vice President of Finance and Accounting and
16 promoted to Senior Vice President of Corporate Operations in 2005. In addition,
17 I serve as a board member and as First Vice Chairman for the Organization for the
18 Promotion and Advancement of Small Telecommunications Companies
19 (OPASTCO).

20

21 I have appeared before this Commission in the past to present testimony on behalf
22 of the South Carolina Telephone Association and the South Carolina Telephone
23 Coalition.

24

1 **Q. WHO ARE YOU REPRESENTING IN THIS PROCEEDING BEFORE**
2 **THE COMMISSION?**

3 **A.** I am testifying on behalf of the members of the South Carolina Telephone
4 Coalition, a group of rural incumbent local exchange companies. The
5 participating companies are listed in Exhibit A which is attached to my testimony.
6

7 **Q. WHAT IS THE PURPOSE OF THIS PROCEEDING?**

8 **A.** ALLTEL Communications, Inc. ("ALLTEL") has requested that this Commission
9 designate it as an Eligible Telecommunications Carrier (ETC) within the area it
10 serves in South Carolina, which includes the entire state of South Carolina. Being
11 designated as an ETC would allow ALLTEL to draw federal universal service
12 funds for the provision of service to its Commercial Mobile Radio Service
13 (CMRS) customers, including those CMRS customers it already serves. Section
14 214(e)(2) of the federal Telecommunications Act of 1996 (the "1996 Act")
15 provides in part: "Before designating an additional eligible telecommunications
16 carrier for an area served by a rural telephone company, the State commission
17 shall find that the designation is in the public interest."
18

19 A key public interest determination to be made in considering ALLTEL's
20 application is whether the benefit of providing universal service support to
21 ALLTEL exceeds the costs of such support.
22

1 Before designating ALLTEL as an ETC in South Carolina, the Commission must
2 find not only that ALLTEL meets the statutory requirements to be an ETC in
3 South Carolina, but also that it is in the public interest for multiple wireless
4 CETCs to be designated to serve customers in the rural areas of South Carolina.
5 It should be noted by the Commission that ALLTEL's application covers 27
6 distinct study areas including 25 specific study areas served by rural telephone
7 companies. Each study area is unique and each area has specific universal service
8 funding requirements. ALLTEL should prove that it meets the public interest
9 standard in each specific study area, and this should include meeting a public cost
10 vs. public benefit analysis that is specific to each unique study area. The burden
11 of proof is on ALLTEL. If ALLTEL cannot prove that its designation as an ETC
12 is in the public interest in each individual rural South Carolina study area, the
13 Commission is obligated to deny the application for that study area.

14
15 **Q. WHY DOES THE SCTC OPPOSE THE ALLTEL FILING?**

16 **A.** We are concerned about the impact explosive growth will have on the continued
17 viability of the federal Universal Service Fund. This growth is caused by the
18 ever-increasing funding flowing to CETCs, apparently without commensurate
19 increased public benefits. SCTC member companies depend on this funding to
20 keep rates for local telephone service affordable for their customers. The
21 approval of CETCs in rural areas, particularly when the CETC has not proven it is
22 creating a public benefit in excess of the funding it will receive, simply burdens
23 the fund without a corresponding benefit to the public. This burden has become

1 so great it actually threaten to collapse the fund our member companies depend
2 upon in order to bring quality telecommunication services to the customers we
3 serve in high cost rural areas of our state at fair and affordable rates.
4

5 **Q. ARE OTHER ENTITIES CONCERNED ABOUT THE RAPID GROWTH**
6 **IN THE FUND?**

7 **A.** SCTC members are not alone in our concerns over the health of the Federal
8 Universal Service Fund. The Federal-State Joint Board on Universal Service
9 (Joint Board), made up of three members from the FCC, four members from state
10 public service commissions, and a consumer advocate representative, has also
11 expressed grave concern. Their concern has risen to such a level that they felt it
12 necessary to recommend an immediate emergency cap on the amount of high-cost
13 support that CETCs may receive.¹
14

15 **Q. DO YOU HAVE ANY SPECIFIC CONCERNS REGARDING HOW**
16 **RURAL ILECS COULD BE HARMED IF THE FCC DOES NOT TAKE**
17 **ACTION TO CONTROL THE SIZE OF THE FEDERAL USF?**

18 **A.** Yes. One reality we face is the fact that our high cost loop funding is already
19 capped. It is estimated that this cap has cost rural ILECs approximately \$2.5
20 billion since 2001. The important thing to realize about this is that the lost
21 revenues are based on actual investments already made by the ILECs. In other
22 words, rural ILECs across the nation have spent investment dollars to serve high-

1 cost rural areas for which they can not fully recover their cost. As the FCC seeks
2 a long-term solution to the overburdened federal USF, several things could occur.
3 The largest concern we have is that the FCC could potentially determine that,
4 where more than one ETC operates in the same study area (e.g., an ILEC and a
5 wireless ETC), the area is deemed to be competitive and is excluded from
6 receiving USF funding.² This type of action would clearly have a major impact
7 on the Commission's public interest finding, as the result of certifying a new
8 CETC in a study area would be to eliminate all federal funding in the study area,
9 which would then require state intervention in order to keep wireline basic local
10 service rates affordable. Other concerns would be that the FCC might elect to
11 freeze the funding by study area and divide this funding between authorized
12 ETCs.³ This could result in a dramatic reduction in funding to the ILEC in that
13 study area, which again has already spent the funds. Another possibility is that
14 the FCC could establish a system of reverse auctions for ETC funding.⁴ Again,
15 this could result in the ILEC losing all funding. It is impossible to predict what
16 action may eventually be taken to control the size of the federal program.
17 However, it is clear that the ILEC, as the carrier that has incurred the expenditures

¹ Recommended Decision *In the Matter of High-Cost Universal Service Support and Federal-State Joint Board on Universal Service*, WC Docket No. 05-337 and CC Docket No. 96-45, FCC 07J-1, released May 1, 2007 (*Joint Board Recommended Decision*).

² Indeed, such a suggestion was made by Indiana Commissioner and Joint Board Member Larry Landis in his separate statement to the *Joint Board Recommended Decision*.

³ Such a suggestion has been made by Western Wireless in an *ex parte* filing made in CC Docket No. 96-45, dated September 30, 2003. See "Western Wireless Proposal for Universal Service Reform," at Section II.B.3.b. ("Each ETC receives support equal to the total support in the study area divided by the number of customer connections reported by the ETC.").

⁴ The Joint Board has requested comments on such a reverse auction mechanism in a public notice dated August 11, 2006 (FCC 06J-1), as well as in the recent *Joint Board Recommended Decision* (FCC 07J-1).

1 in support of its network, stands to be significantly harmed by many of the
2 proposed solutions.

3
4 **Q. HOW DO YOU INTERPRET THE POSITION ALLTEL SEEMS TO BE**
5 **TAKING REGARDING ITS RIGHT TO COLLECT FEDERAL USF?**

6 **A.** There seems to be the attitude that if anyone is receiving funding, regardless of
7 the recipient's justification for funding, then ALLTEL should receive it also.
8 ALLTEL appears to believe that all it should have to prove is that it is spending at
9 least the amount of USF funding it receives to support its overall existing
10 network. This is not hard to do, because it has already built out a network and
11 must spend dollars annually to support the network. However, it is important to
12 keep in mind that ALLTEL will do this regardless of the receipt of USF funding,
13 because its network was built on the concept of a competitive model.
14 Competition drives ALLTEL's expenditures, and without specific Commission
15 direction it is unlikely that it will expend any additional funding in a manner that
16 does not fit into the competitive model. That is why it is critical that this
17 Commission require ALLTEL to develop specific, detailed build out plans to
18 expand service into unserved areas -- plans that can be quantified and monitored
19 by the Commission to ensure that ALLTEL is actually serving the public interest
20 by spending funding to provide service to areas that currently are not served. In
21 addition, the Commission should ensure that all of this new funding is spent to
22 increase coverage, not just some part of it, with the balance being diverted to
23 cover normal operating expenses or, worst yet, simply added to the bottom line.

1

2 **Q. WHAT COURSE OF ACTION SHOULD THE SOUTH CAROLINA**
3 **PUBLIC SERVICE COMMISSION TAKE IN THIS MATTER?**

4 **A.** Given the current disfunctionality of federal funding policies, it is imperative that
5 the South Carolina Public Service Commission continue, as it has done in the
6 past, to take steps to protect rural consumers in our state. When other regulatory
7 bodies, including the Federal Communications Commission, did not understand
8 the damage being done to the Federal Universal Service Fund, the South Carolina
9 Public Service Commission did, and has done its best to consider the best interests
10 of the ratepayers of South Carolina.⁵ The rest of the nation is now trying to take
11 steps to address concerns related to overburdening the Federal Universal Service
12 Fund. The time is right for this Commission to adopt a set of strong pro-
13 consumer standards that CETCs will be required to meet. The time is right for
14 this Commission to issue rules that ensure that any federal funding generated in
15 South Carolina is actually spent to expand service in areas currently not served
16 within South Carolina. The time is right for this Commission to once again show
17 the leadership, discipline and vision that most other regulatory bodies have not
18 displayed to date. It is the time for this Commission to require a strong, study
19 area-specific, public interest cost/benefit analysis of all pending and future CETC
20 applicants, and to approve an application only when it can be demonstrated that it
21 is actually in the public interest.

⁵ See Order no. 2005-5 in Docket No. 2003-158-C, *In re Application of FTC Communications, Inc. d/b/a FTC Wireless for Designation as an Eligible Telecommunications Carrier Pursuant to Section 214(e)(2) of the Communications Act of 1934 (FTC Order)*, at p. 27 ("The real issue for us to decide is not whether FTC

1

2 **Q. CAN YOU GIVE US A BRIEF HISTORY OF THE UNIVERSAL SERVICE**
3 **FUND AND WHAT IT WAS ORIGINALLY INTENDED TO**
4 **ACCOMPLISH?**

5 **A.** Many observers think that the universal service fund was used to create our
6 ubiquitous national public switched network. Others, particularly in the early
7 years after the passage of the 1996 Act, saw the high cost fund as a way to create
8 competition. Both of these assumptions are misplaced. The fund was actually
9 created to fill the gaps between the outcome that would be produced by a
10 competitive marketplace and the mandates of public policy makers, in order to
11 ensure the continued provision of telecommunications service at affordable rates
12 for everyone. In a competitive marketplace, carriers would build networks only
13 where it would be profitable to do so. The universal service fund exists so that
14 otherwise uneconomical networks are built so that consumers in all areas of the
15 nation have access to telecommunications services that are comparable to those
16 available in urban areas.

17

18 As to the first assumption, the nation's telecommunication network was extended
19 to the most high-cost remote areas well before a separate universal service fund
20 was created. This was accomplished through two major mechanisms. The first
21 was low interest rate loans from the Rural Electrification Administration, and the
22 second was the use of cost averaging or pooling. Both of these mechanisms

will improve its network with any federal USF monies received, but whether FTC's competitive efforts should be subsidized by payments from the federal USF. We find they should not.").

1 fostered the concept of universal service, but a specific universal service fund was
2 not created until 1987.

3
4 The universal service fund did not create new revenues for rural carriers; it simply
5 replaced funding that had previously been received through implicit support built
6 into the rural carriers' rates, which had been used to build out and operate the high
7 cost networks in rural areas.

8
9 This high cost network was built as a result of a national policy that has, since
10 enactment of the federal Communications Act in 1934, recognized the importance
11 of everyone having access to telephone service. It was recognized that the cost of
12 building out the network was not equal in all areas, but that once connected,
13 regardless of cost, all subscribers had the ability to equally benefit from a
14 ubiquitous network. In order to support the high cost to build and operate the
15 network in rural, sparsely populated areas and to spread this cost over the entire
16 national network, toll revenues were in effect pooled and distributed based on the
17 cost of the underlying network. In this way, local service rates were kept
18 affordable, thus encouraging universal connection to the network.

19
20 In 1987, due to a change in the way costs were being shared between state and
21 interstate jurisdictions, the first distinct universal service fund was created. The
22 fund was created to prevent local rates from increasing when costs were shifted
23 from the interstate jurisdiction back to the state jurisdiction. What was, in effect,

1 a bulk billed access rate was charged to toll providers to support this fund. Thus,
2 while it was a separate fund, it was still supported by long distance rates and
3 remained a part of the interstate access pool. Not until the passage of the federal
4 Telecommunications Act of 1996 (the Act) was a separate funding mechanism
5 created for universal service funding.

6
7 The Act created the universal service fund, as we know it today. The Act had as
8 its primary focus the authorization of competition in the local exchange carrier
9 market. However, in creating a competitive local exchange market, Congress
10 recognized the risks that pure, unfiltered competition would pose to consumers in
11 rural high cost markets. These were markets in which not even a single provider
12 could afford to provide service and, therefore, markets that would not experience
13 any real competition. To ensure competition did not destroy the ubiquitous public
14 switched network through the abandonment of service to rural high cost areas,
15 Congress mandated a separate "Universal Service Fund." Thus, the Act was a
16 careful balancing of competition with universal service. Congress rightfully
17 understood that competition would not come to high cost areas, and without
18 assurances of specific, sufficient and predictable universal service support the
19 rural network would wither and die.

20
21 The key thing to remember is that the fund was intended to ensure the recovery of
22 investment previously spent and to maintain service in rural areas at a comparable
23 price and quality to that experienced in urban areas. It was the outgrowth of a

1 regulated monopoly and was necessary to keep service from even a single
2 provider in areas that otherwise would have been too costly to serve. It took
3 several years for the wireless industry to discover that, due to poorly crafted
4 federal rules and regulations, coupled with an overactive concern for "creating
5 competition," and competitive neutrality, they could collect money from the
6 federal USF fund. Thus the wireless industry, an industry founded on the
7 concepts of competition and profit, discovered the federal Universal Service
8 Fund.

9
10 ALLTEL states in this proceeding that its individual application for funding will
11 have no major impact on the overall size of the federal fund. This is of course
12 true of any CETC filing within any individual state when compared to the current
13 multi-billion dollar size of the total federal USF fund. However, a million
14 dollars here and a million dollars there quickly added up to the current tab of over
15 one billion dollars being received by CETCs. The Joint Board projects this
16 amount will continue to grow quickly, doubling within two years⁶ unless action is
17 taken soon. While ALLTEL claims this one application for CETC status in South
18 Carolina will not impact the fund, even ALLTEL cannot deny that the almost one-
19 third of a billion dollars it now collects nationally, as the single largest recipient
20 of federal USF funding, is not seriously impacting the fund. This Commission

⁶ See Notice of Proposed Rulemaking, *In the Matter of High Cost Universal Service Support and Federal-State Joint Board on Universal Service*, WC Docket No. 05-337 and CC Docket No. 96-45 (released May 14, 2007), at paragraph 4 and Appendix A.

1 was one of the first to realize the danger of overloading the federal USF fund.⁷
2 The Joint Board is proposing an interim plan to help curb the explosive growth in
3 the amount of high-cost support that CETCs receive. Not surprisingly, ALLEL --
4 as the major benefactor of the currently over-burdened system -- is strongly
5 opposing the Joint Board's recommendation. As a recipient of almost a third of a
6 billion dollars per year, ALLTEL is one of the major reasons that the fund is over-
7 burdened, and yet it shows no willingness to slow its ever-increasing draw from
8 the federal universal service fund. ALLTEL's actions seem to indicate that it
9 thinks these funds should be diverted from the purposes for which they were
10 intended to ALLTEL's bottom line. Given the fact that ALLTEL will soon be
11 owned by private investment bankers,⁸ it is not likely their position will change.

12
13 **Q. CAN YOU GIVE A BRIEF OVERVIEW OF THE VARIOUS**
14 **COMPONENTS OF THE FEDERAL UNIVERSAL FUND AVAILABLE**
15 **TO RURAL LOCAL EXCHANGE CARRIERS (LECS) AND EXPLAIN**
16 **WHY EACH IS RECEIVED?**

17 **A.** The Federal Universal Service Fund is a very complex entity. It is very important
18 that the Commission understand what funding ALLTEL is seeking to receive
19 through the federal USF. In order to evaluate ALLTEL's right to receive these
20 funds, the Commission should be aware of the origins and reasons behind the

⁷ See *infra*, footnote 5, *FTC Order* at p. 31 ("Explosive growth in the size of the federal USF could threaten the long-term viability of the fund, thereby jeopardizing the continued provision of affordable basic local exchange service to rural subscribers.").

⁸ "TPG, Goldman Arm Land Alltel," *Wall Street Journal*, May 21, 2007.

1 different sources of federal universal service funding and why these funds are
2 currently being received by rural LECs.

3
4 The High Cost funding mechanism for rural carriers has three components. They
5 are: (1) High Cost Loop fund; (2) Local Switching Support; and (3) Interstate
6 Common Line Support (ICLS).

7
8 One of the largest components of a rural LEC's USF support comes from the high
9 cost loop fund. This fund was created in 1987 as a result of the transition of local
10 loop cost from the interstate jurisdiction to the state jurisdiction. The FCC was
11 concerned that the large shift to the state jurisdiction would result in major
12 increases in basic local rates regulated by state commissions. To prevent this, a
13 portion of loop cost in excess of 115% of the national average was assigned to the
14 new High Cost Loop Fund. Initially, this fund was recovered by assessments to
15 interexchange (long distance) carriers (IXCs). The 1996 Act shifted funding
16 requirements to the new federal universal service fund. To receive this funding,
17 rural LECs are required to submit detailed cost studies proving that their local
18 loop cost exceeds the national average. Competitive ETCs (CETCs) are not
19 required to show any cost justification. They simply recover the same funding as
20 the incumbent LEC (ILEC), regardless of the CETC's cost. This is known as the
21 "identical support rule."
22

1 The second component of federal USF is Local Switching Support. This support
2 is available only to rural LECs that serve fewer than 50,000 access lines. The
3 support is intended to help offset the higher cost of switching where the switch is
4 serving a relatively small customer base. Prior to receipt from the federal USF,
5 this revenue was recovered from interstate access charges for local switching.
6 CETCs, regardless of their size, receive this funding even though most never
7 charged local switching access rates.

8
9 The third component of federal USF is the Interstate Common Line Support
10 (ICLS). To offset the reduction of the federal CCL to zero, rural LECs were
11 required by NECA to increase the subscriber line charge (SLC) to \$6.50 for
12 residential and single line business subscribers. The difference not recovered
13 from the SLC increases was transferred to the new Interstate Common Line
14 Support (ICLS) portion of the federal universal service fund. CETCs were never
15 in the NECA pool and are not required to charge SLCs, and most did not charge
16 the common line access rate element, but they are allowed to receive the same
17 funding from this support mechanism as the rural LEC.

18
19 It is easy to see that each component of the federal USF received by rural ILECs
20 is based on specific actual costs incurred by the rural ILEC or is intended to
21 replace specific revenues previously received by the rural ILEC.

1 **Q. WHY IS THE PAST HISTORY OF USE AND AN UNDERSTANDING OF**
2 **WHY THESE FUNDS WERE CREATED RELEVANT TO THIS**
3 **PROCEEDING?**

4 **A.** This Commission can only act like a light switch regarding the certification of
5 CETCs. It can either approve the filing and turn the switch on, or disapprove the
6 filing and turn the switch off. The amount of funding and the federal
7 requirements for funding are not within the Commission's authority. Therefore, it
8 is important for this Commission to understand why this funding mechanism was
9 created and why it is being received by the ILECs. It is important that the
10 Commission understand the way the fund functions and what problems exist with
11 the fund in order to make an informed public interest analysis. If the federal rules
12 and regulations were stringently constructed to ensure a CETC would only
13 recover funding appropriate for the activities it undertook to expand into
14 previously unserved areas, then perhaps the Commission could apply a more
15 liberal public interest finding on the front end. However, given that the FCC has
16 failed to provide adequate protections on the federal side, the Commission is well
17 justified to apply a more rigorous public interest standard before approving a
18 CETC to receive funding. This Commission is justified in establishing a firm set
19 of requirements for a CETC to meet prior to being certified. Since ILECs already
20 file supporting cost data and only receive funding for high cost networks, while
21 the CETCs are not required to prove any cost requirements, the Commission
22 should require a detailed public interest cost/benefit analysis prior to granting
23 applications for CETC status. Existing federal rules and requirements for CETCs

1 should play a major role in what the Commission should consider in a public
2 interest finding prior to approving an application for CETC designation.

3

4 **Q. IF ALLTEL PROVIDES ETC SERVICES, SHOULDN'T IT BE**
5 **ENTITLED TO THE SAME SUPPORT RECEIVED BY THE ILEC?**

6 **A.** No. First, ALLTEL is not providing the same service as the ILECs at the same
7 rates as the ILECs. Second, even if ALLTEL were providing the same service at
8 the same rate as the ILECs, its costs are totally different because it serves
9 predominantly the lower-cost portions of the service territory and does not have
10 the same Carrier of Last Resort and other regulatory obligations that the ILEC
11 has, and has generally not built out into high-cost areas as the ILEC has.
12 Universal service funding is specific to each ILEC and ensures the ILEC can
13 fairly recover its cost of providing service at the current affordable basic local
14 service rates it charges, as authorized by this Commission. Thus, funding is tied
15 to the rates, network service area, and costs of the ILEC, neither of which are the
16 same for ALLTEL.

17

18 Universal service funding is intended to ensure the provision of basic local service
19 to rural customers at affordable rates that are comparable in quality and price to
20 urban areas. As ILECs, we are required to offer stand-alone basic local service
21 with unlimited local calling at affordable rates approved by the Commission. The
22 statewide average of the basic local exchange rates approved by this Commission
23 for residential customers of ILECs in South Carolina is \$14.35 per month. In

1 addition, we are subject to quality of service standards, which require detailed
2 reporting. Unless the Commission explicitly requires it, ALLTEL will not be
3 subject to these requirements. While ALLTEL's application is somewhat vague
4 on these points, it appears that it does not intend either to offer a stand-alone
5 unlimited local calling plan or to be subject to the same reporting standards or
6 quality of service standards that the Commission applies to other ETCs (i.e.,
7 ILECs).

8
9 **Q. IS THERE A DIFFERENCE IN THE WAY UNIVERSAL SERVICE**
10 **FUNDING FOR ILECS AND COMPETITIVE ETCS IS CALCULATED**
11 **AND UTILIZED?**

12 **A.** Yes, there is a fundamental difference. For rural ILECs, USF is based on their
13 embedded cost of providing service. ILECs only receive support for high-cost
14 investments two years after such investments have been made. Universal service
15 for ILECs is thus a cost recovery mechanism. CETCs, on the other hand, receive
16 universal service funding based on the ILEC's cost for serving throughout its
17 study area and actually receive funding before they incur cost. From the CETC's
18 standpoint, this amount is arbitrary and has no relation to its actual cost of
19 providing service, which is usually to a smaller portion of the ILEC's service area
20 and often to an area less costly for the CETC to serve.

21
22 In ALLTEL's case, for example, it currently provides wireless service in cities
23 and towns and along major highways in its service area within South Carolina and

1 has been doing so for many years, without federal USF support. Upon
2 designation as an ETC, based on ALLTEL's testimony, it stands to receive
3 approximately \$20,000,000 annually in federal USF for nothing more than
4 serving its existing CMRS customers. CETCs have not demonstrated the same
5 need for funding that ILECs have. ILECs have proven this funding is necessary
6 in order to recover the cost previously spent to serve their customers. ALLTEL's
7 business plan already provides, or should provide, for it to earn a profit at the
8 current rates charged. Any support received in excess of that amount would be a
9 windfall for its owners. While ALLTEL may argue it has a "need" for the funds
10 to upgrade facilities, provide better service, or serve additional customers, it is
11 clear that ALLTEL built out its current network and acquired its current customer
12 base in South Carolina without the expectation of universal service funding. In
13 that respect, if ALLTEL's application is approved, ALLTEL will experience a
14 windfall of funding for its existing customer base. This does not seem to be what
15 was originally intended as a use for federal universal service funding. See 47
16 C.F.R. § 54.307(a) (A CETC can receive universal service support "to the extent
17 that the [CETC] *captures the subscriber lines of an [ILEC] or serves new*
18 *subscriber lines in the [ILEC's] service area.*"
19

20 **Q. YOU SAID UNIVERSAL SERVICE FUNDING ALLOWS ILECs TO**
21 **RECOVER THEIR COSTS. PLEASE EXPLAIN.**

22 **A.** For ILECs, federal and state universal service funding is a part of their cost
23 recovery. It is not "new money" or a windfall for ILECs, but involves a shift of

1 revenues from implicit to explicit support. Support for basic local exchange
2 service that is implicit (i.e., contained in rates for other services) is identified and
3 moved into an explicit fund so that the support or revenue stream can be
4 maintained. Thus, for ILECs, federal and state universal service funding is a
5 critical component of recovering the cost of providing affordable basic local
6 exchange service to their customers.

7

8 **Q. IS ALLTEL'S COST OF PROVIDING SERVICE THE SAME AS THE**
9 **ILEC'S COST FOR SERVING THE AREA?**

10 **A.** ALLTEL provides no information to determine how its costs compare to those of
11 the ILECs serving the areas in which ALLTEL seeks ETC status, or how its costs
12 will change should it build out its network into higher-cost and currently un-
13 served areas. ALLTEL is not required to submit any cost support prior to
14 receiving high-cost funding, another difference from the ILEC serving the same
15 area. This is an important distinction. USF is intended to offset the legitimately
16 higher cost of serving rural customers. As ILECs, we only receive USF to offset
17 costs we have actually incurred to serve ubiquitously throughout our study area.
18 Unless ALLTEL is required to invest high-cost support that it receives to expand
19 its network into previously un-served rural areas, it will have received an
20 unwarranted windfall.

21

1 **Q. WILL THE DESIGNATION OF ALLTEL AS AN ETC ADVANCE**
2 **UNIVERSAL SERVICE IN THE RURAL AREAS OF SOUTH CAROLINA**
3 **THAT IT SERVES?**

4 **A.** No. Universal service is already available throughout the rural areas of the state.
5 Universal service is defined as the provision of basic local exchange telephone
6 service, at affordable rates, upon reasonable request, to all residential and single-
7 line business customers within a defined service area. See S.C. Code Ann. § 58-
8 9-10(16). The “core” basic universal services for federal funding purposes were
9 set forth by the FCC in its First Report and Order on Universal Service in CC
10 Docket No. 96-45, and have not been changed since. SCTC member companies
11 offer high quality advanced telecommunication services throughout the rural areas
12 ALLTEL has requested the designation of an ETC. Universal service is not
13 defined to include the offering of wireless service or even broadband services.
14 The FCC has not made the provision of these services a part of the definition of
15 universal service, and universal service funding can only be utilized to support the
16 provision of those services found in the definition of universal service. The
17 universal service fund should be used to support the investment in rural
18 telecommunications infrastructure that would not exist in the absence of such
19 support.

1 **Q. MR. RANARAJA POINTS OUT IN HIS TESTIMONY THAT ALLTEL**
2 **HAS RECEIVED CETC STATUS IN DOZENS OF OTHER STATES.**
3 **SHOULD THIS COMMISSION BE SWAYED BY THE FACT THAT**
4 **OTHER STATES AND THE FCC HAVE PREVIOUSLY GRANTED**
5 **ALLTEL CETC STATUS?**

6 **A.** No. We should learn from the mistakes of other states and the FCC and not feel
7 bound to repeat them. This Commission has taken a leadership role on many
8 telecommunications issues. From local rate rebalancing, state access rate
9 reductions, alternative regulation for competitive services, to state universal
10 service fund issues, South Carolina has consistently been a leader. Most other
11 states are well behind the pace our state has set. At a time when national attention
12 has been focused on the runaway growth in CETC funding, South Carolina stands
13 as one of only a handful of states that has so far gotten it right. It is clear that a lot
14 of states have granted ALLTEL CETC status, because it takes a lot of states to
15 add up to the third of a billion dollar ALLTEL currently receives on an annual
16 basis.

17

18 **Q. HOW DOES ALLTEL'S APPLICATION DIFFER FROM THE OTHER**
19 **WIRELESS CARRIERS SEEKING CETC STATUS IN SOUTH**
20 **CAROLINA?**

21 **A.** ALLTEL is seeking statewide certification. ALLTEL would be the only carrier in
22 the state to be eligible to receive federal USF in *every single area* throughout the

1 entire state. Other wireless carriers have sought certification only for specific
2 study areas or parts of study areas.

3
4 **Q. WHY IS THIS IMPORTANT?**

5 **A.** ALLTEL operates in the extremely competitive wireless market. As a statewide
6 provider, should ALLTEL gain approval, it will immediately give ALLTEL a
7 competitive advantage over every other wireless provider operating within the
8 state. Ultimately, this will force every wireless carrier operating anywhere in the
9 state to apply for certification. Thus, this Commission's decision to grant
10 ALLTEL's request will likely have major ramifications for all South Carolina
11 wireless carriers. In addition, since ALLTEL is a statewide provider, any
12 conditions or requirement the Commission decides to impose or not impose on
13 ALLTEL will establish precedent for any other wireless carrier seeking
14 certification anywhere within South Carolina.

15
16 **Q. SHOULD THIS COMMISSION CONSIDER GRANTING STATEWIDE**
17 **WIRELESS CETC STATUS TO ANY CARRIER?**

18 **A.** No, I do not believe it should. It is clear that the federal funding for rural areas is
19 based on individual study areas. Each study area is unique as to where service is
20 available and where it is not. The only way to determine if the certification of an
21 additional CETC in a specific study area is in the public interest is to examine that
22 study area and develop a study area-specific cost/benefit analysis. At a minimum,
23 the Commission should require a detailed filing by study area demonstrating that

1 CETC status for each specific study area is in the public interest. This would
2 require build out plans specific to each study area. Federal USF is based on the
3 specific cost characteristics of each ILEC within each ILEC study area. Federal
4 rules require that Federal USF recipients spend those funds for the purposes for
5 which they are received. Since funding is calculated at the study area level, it is
6 clear that funding must be spent within the area for which it is intended. Mr.
7 Ranaraja seems to agree with this principle in his testimony, but fails to offer any
8 evidence that ALLTEL will actually spend funds in the specific study area for
9 which the funding is received.
10

11 **Q. IS IT POSSIBLE FOR THE COMMISSION TO ENSURE FEDERAL**
12 **FUNDS ARE BEING PROPERLY SPENT?**

13 A. Yes, but the burden of proof should be on the CETC applicant. The Commission
14 should require the applicant to present and support this evidence before
15 certification is granted. The Commission should require specific detailed filings,
16 including maps clearly showing areas currently served as well as areas where
17 coverage is not currently being provided, as well as maps showing how these
18 areas will be served after funding is received – i.e., “before” and “after” coverage
19 maps. The build out plans should be clearly explained in a detailed 5 year build
20 out plan showing exactly what facilities will be added to provide coverage to un-
21 served areas.
22

1 **Q. CAN YOU GIVE MORE DETAILS ON HOW THE COMMISSION**
2 **COULD IMPLEMENT THE TYPE OF PLAN YOU DISCUSSED?**

3 **A.** In order to meet the public interest test, a carrier would be required to demonstrate
4 that it is spending more to serve in previously un-served areas (public benefit)
5 than it is withdrawing from the federal universal fund (public cost). The first step
6 would be to identify by detailed maps each area within each specific study area
7 where the carrier provides coverage. It would be assumed that existing facilities
8 serving these areas, which were built without USF support, are not dependent on
9 USF support. Next, a detailed map showing un-served areas within the rural
10 study area would be required. These would be considered the "before" funding
11 coverage maps. The carrier would then be obligated to develop a 5 year build out
12 plan which would enable service to be provided to these un-served areas within
13 this 5 year time frame. The plan would have to commit to a specific build out
14 schedule over the 5 years, including specific numbers and locations of cell sites to
15 be constructed. The impact of the build out plan would be demonstrated on the
16 "after" funding coverage map. Of course, plans can and do change over time, and
17 the process should provide for an annual update of the plan to the Commission,
18 with an opportunity to review progress over the past year, and the reasons for any
19 proposed changes going forward.

20
21 These steps would give the Commission a measurable plan by which to judge the
22 CETC's performance. The Commission would then require the applicant to
23 provide detailed cost documentation demonstrating the operating cost of the

1 facilities to be constructed under the five year plan that are related only to the
2 provision of service to un-served areas. The cost of operating and maintaining
3 these new "coverage" cell sites, including depreciation, would in effect be the
4 "benefit" received by the public. In other words, if the annual operating costs to
5 the carrier were \$1,800,000 for these "new coverage" cell sites, it would be
6 assumed the public would "benefit" from this expenditure by the same amount.
7 The carrier would have to submit a certified, detailed annual cost calculation,
8 which would demonstrate to the Commission the expenditures required for
9 operating the "new coverage" cell sites. The carrier would be allowed to project
10 the cost, based on current operating costs for the full 5 year build out plan. This
11 "public benefit," which is the cost of maintaining and operating "new coverage"
12 cell sites, would be compared to the public cost of providing USF support, which
13 can be viewed as simply the annual USF received by the carrier (*i.e.*, the amount
14 it is costing the public). Thus, in the example stated earlier, if less than \$1.8
15 million in annual USF support would be received within a specific study area, the
16 public would be said to benefit, as \$1.8 million was being spent to benefit the
17 public, while the cost to the public was less than \$1.8 million.

18
19 This method, while not perfect, would provide the Commission with a very
20 simple, yet very specific, cost/benefit test that could be applied to each wireless
21 carrier seeking ETC status. Simply stated, if the carrier did not commit to and
22 actually build out cell sites to non-covered areas in an amount that exceeded the

1 public support received, it would fail the public interest cost/benefit test and either
2 not receive certification or not gain annual re-certification from the Commission.
3

4 **Q. IS THIS ALL OR NOTHING APPROACH FAIR TO THE CETC?**

5 A. Yes. This Commission can not control the funding level granted to the CETC.
6 The Commission is limited to all or nothing. It can either approve the CETC to
7 receive full federal funding, or deny the certification, in which case no funding is
8 received. The Commission is simply creating a test to ensure that the public will
9 receive at least as much "benefit" in the form of additional wireless deployment
10 as the public bears in cost to fund the USF. In addition to the support payments,
11 the carrier will receive additional retail revenue as it now reaches more customers,
12 as well as usage-based revenues from its own subscribers and from other carriers
13 whose subscribers might roam on the CETC's expanded system. In effect, the
14 USF support simply makes it affordable for the carrier to more widely deploy
15 facilities. At the same time, the Commission can be certain that the support is
16 actually being spent in the area for which it is being generated to the benefit of the
17 public.
18

19 **Q. SHOULD INCUMBENT ETCS BE REQUIRED TO MEET THIS SAME**
20 **TEST?**

21 A. No. The problem is the entire federal system as it currently exists is unbalanced.
22 New CETCs are not required to submit any cost justification to the federal USF
23 administrator (USAC). The CETC simply collects the same amount per

1 subscriber as the incumbent ETC. However, in order for the incumbent ETC to
2 collect funding, it must submit annual detailed cost studies proving that its cost
3 exceeds the national average cost. In other words, the ILEC already must make
4 high-cost infrastructure investments first and then wait 2 years before beginning
5 to receive funding. The CETC receives funding from the federal USF at the
6 beginning without having to demonstrate its costs. As discussed previously, part
7 of the funding the ETC receives is based on cost transferred from access charges
8 to universal service funding. This represents revenues that the wireless carrier
9 never had, and thus without some proper showing as to how it will be spent in the
10 public interest, it simply becomes a windfall to the wireless carrier unless the
11 wireless carrier is required to invest such funds to expand into previously un-
12 served areas.

13
14 **Q. IS THIS COST/BENEFIT TEST THE ONLY CRITERIA THAT THE**
15 **COMMISSION SHOULD REQUIRE BEFORE GRANTING ECTC**
16 **CERTIFICATION?**

17 **A.** No. Mr. Brown in his testimony covers a more detailed list of requirements that
18 includes such things as local usage calling plans, customer billing and quality of
19 service reporting. This cost/benefit test is simply one of many items that the
20 Commission should consider, but it is a key test because it offers the Commission
21 the ability to actually test or gauge the degree to which the public will benefit. It
22 offers the Commission the opportunity to ensure that what is earned in South
23 Carolina stays in South Carolina for its intended purpose.

1

2 **Q. WHAT DOES THE SCTC RECOMMEND THAT THE COMMISSION DO**
3 **REGARDING THE ALLTEL PETITION FOR CERTIFICATION AS A**
4 **CETC?**

5 A. Clearly it is up to ALLTEL to prove, on a study area-by-study area basis, that it is
6 in the public interest for it to be certified as a CETC. ALLTEL should have to
7 prove that it will actually spend the funding it will receive to expand wireless
8 coverage to areas currently not covered. It is up to ALLTEL to prove the public
9 benefit received from doing this will outweigh the public cost. In addition,
10 ALLTEL should commit to providing at least one unlimited local calling plan
11 within each basic local exchange area at a rate that does not exceed the
12 Commission-authorized ILEC rate for basic local exchange service. ALLTEL
13 should also commit to all public reporting standards required of existing ETCs.
14 ALLTEL has failed to demonstrate that it will meet any of these key standards.
15 Thus, the Commission should reject ALLTEL's petition and require ALLTEL to
16 file the detailed information necessary for each rural study area where it wishes to
17 seek CETC status.

18

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes, it does.

Appendix A

List of Participating South Carolina Telephone Coalition Member Companies

Chesnee Telephone Company

Chester Telephone Company

Ft. Mill Telephone Company, d/b/a Comporium Communications

Home Telephone Company, Inc.

Horry Telephone Cooperative, Inc.

Lancaster Telephone Company, d/b/a Comporium Communications

Lockhart Telephone Company

McClellanville Telephone Company

Norway Telephone Company

Palmetto Rural Telephone Cooperative, Inc.

Piedmont Rural Telephone Cooperative, Inc.

PBT Telecom

Ridgeway Telephone Company

Rock Hill Telephone Company, d/b/a Comporium Communications

Sandhill Telephone Cooperative, Inc.

St. Stephen Telephone Company

West Carolina Rural Telephone Cooperative, Inc.

Williston Telephone Company

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CERTIFICATE OF SERVICE

COLUMBIA 892643v1